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TAGS: [PREL](#) [ETRD](#) [ENRG](#) [MASS](#) [RS](#) [CH](#)  
SUBJECT: PRC/RUSSIA: OBSERVERS SAY WARMING TREND IS REAL,  
BUT SO ARE THE OBSTACLES

REF: A. 07 MOSCOW 5899  
[B](#). 07 BEIJING 6976  
[C](#). 07 BEIJING 6403

Classified By: Political Minister Counselor Aubrey Carlson.  
Reasons 1.4 (b/d).

[1](#). (C) SUMMARY: Chinese and Russian leaders are celebrating a relationship they call "the best in history." Chinese scholars say the warming trend is rooted in a new alignment of PRC and Russian interests. This convergence of interests stems from expanding trade, shared perceptions of external threats, a joint emphasis on cooperation in multilateral organizations and the mutual desire to counter U.S. and European pressure. Observers acknowledge, however, that warming relations between senior leaders have yet to trickle down to the working level of the Chinese bureaucracy. Moreover, conflicts over energy resources and trade imbalances threaten progress. Nevertheless, Beijing is delighted at the choice of Medvedev to succeed Putin as President, and indications that Putin's influence in Russian politics will continue give Beijing reason for confidence that relations will keep improving. END SUMMARY.

"Best Ties in History"

[2](#). (C) With the two countries' "strategic partnership" now a decade old, China and Russia regularly emphasize the positive in relations between the two countries. Premier Wen Jiabao during his November 5 visit to Moscow declared that Sino-Russian ties are at their "best in history." Wen was celebrating the closing of the "Year of China" in Russia, which followed 2006's "Year of Russia" in China. Director General Cheng Guoping of the MFA Department of European and Central Asian Affairs in a November 28 briefing reiterated to PolOff this message of ever-increasing closeness of the two countries. Russian Embassy officials also often characterize current Sino-Russian relations as "the best ever" between the two countries. Ref A describes the range of high-level meetings between the two countries, which were prominently reported in China's state-run media.

Joint Emphasis on Multilateralism

[3](#). (C) Both countries play up in particular the importance of their cooperation in multilateral fora. China and Russia both described the China/Russia/India trilateral ministerial, last convened in Harbin in October, as an increasingly formalized platform for wide cooperation, though India's enthusiasm was more muted (ref B). The Shanghai Cooperation Organization (SCO) provides another platform for public hand-holding, though China and Russia seem to have different objectives in the SCO (ref C). China and Russia also quietly or overtly cooperate in other multilateral fora like the UN Security Council, where the two countries in January 2007

exercised a "double veto" of a U.S.-proposed resolution on Burma.

#### Expanding Trade

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¶4. (C) MFA-affiliated China Institute of International Studies (CIIS) scholar Chen Yurong stressed to PolOff November 16 that Sino-Russian warming is not merely for show, but reflects a genuine convergence of national economic interests. Chen said since the end of the Cold War China has emerged as an important economic power while Russian influence in Asia has declined steadily. This shift in power has led to increasingly complementary trade between the two countries. In Beijing's view, Chen said, the import of Russian arms, energy and raw materials to China and the return flow of manufactured goods are the foundation of the new Sino-Russian partnership. With overall annual bilateral trade now exceeding USD 43 billion, a five-fold increase since 2001, Chen argued that Sino-Russian relations will improve further mirroring this new economic reality.

#### Sense of External Threats Also Drives Warming

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¶5. (C) Feng Yujun, Deputy Director of the Russia Studies Institute at the Ministry of State Security-affiliated China Institutes of Contemporary International Relations (CICIR) told PolOff December 13 that China and Russia's joint perception of shared external threats also drives warming relations. These threats include concerns that the SCO overtly seeks to counter: terrorism, separatism and extremism. He added, however, that Russia actually perceives an expanding NATO as its primary external threat, and seeks

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to use closer ties with China as a counterweight, although Feng stopped short of suggesting China in turn seeks to use this to counter U.S. military cooperation with Japan and South Korea in Northeast Asia. Feng also cited Sino-Russian cooperation in slowing down the push for additional sanctions against Iran as an example of a joint Chinese-Russian desire to counter the United States. Chen Yurong from CIIS claimed that from Beijing's perspective the aim of improved Sino-Russian relations is not to confront the United States, but she indicated Russian leaders might have a different agenda.

#### Good Feelings Remain Top-Heavy

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¶6. (C) MFA Eurasia Department Russian Affairs Division Director Wu iaoying, now on loan to the Research Institute for Petroleum Exploration and Development, choed the view that closer Sino-Russian ties re rooted in common interests, but added that the recent warming remains primarily at the senior political level and mainly takes the form of visits and symbolic overtures. Wu said the warming trend has not trickled down to the working level. In a push to develop stronger relations with the United States, the Middle East, and other growing regions, the Chinese government's Russia cadre has lost much of its former talent, Wu said. CICIR's Feng separately echoed this view and said Chinese diplomats are less informed today than they were a decade ago about Russian language, politics and history. A Russian Embassy official acknowledged this challenge, calling for "more routine" interaction at the working level. In a November 5 meeting with PolOff, he lamented the loss of Russia experts in the PRC Politburo and Foreign Ministry. Russia now seeks more structured coordination at the Director General level to complement increasing interactions among ministers, he said.

#### Economic Friction a Major Obstacle

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¶7. (C) Chen Yurong of CIIS said China's leaders know that

China's large trade surplus with Russia, estimated at USD 8 billion (of USD 43 billion of total trade) in 2007, is "awkward," and China will need to manage trade friction. Feng was more frank, saying that Sino-Russia relations have yet to overcome "fundamental economic problems," which include not only the trade imbalance, but Russia's unhappiness at the structure of trade. Russians, he said, are aware that their imports from China are higher value-added manufactured goods and their exports to China are primarily lower-value extractive commodities. Russian leaders, he noted, frequently raise trade friction at senior meetings, seeking Chinese measures to correct the trade imbalance. Feng also pointed to the bilateral trade agreement announced during Premier Wen's recent trip to Moscow, noting that the agreement was requested by Russia. Such imbalances, however, are structural, and thus there are no simple policy steps either side can take to resolve them in the near term, Feng said. A Russian Embassy official confirmed that Russia is "unsatisfied" with the bilateral trade relationship and that progress on the trade imbalance "has not been enough."

#### Energy Trade Underscores Lack of Trust

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18. (C) Energy trade, Feng Yujun stressed, forms a particularly difficult aspect of the economic relationship. As energy prices soar, price agreements that China and Russia have reached are proving less profitable than Russia expected, Feng said. Russia's more flexible trading regime with the EU, on the other hand, better reflects recent increases in world energy prices. This has led some Chinese policymakers to suspect that Russia is intentionally not making timely energy deliveries to China. Japanese competition for Russian energy resources adds to China's suspicions. Feng points to recriminations over pricing as the key reason for the breakdown in talks over the East Siberia Pacific Ocean Pipeline's proposed connection to China. Feng said China views the breakdown in negotiations not as gamesmanship but as reflecting Russian disorganization in dealing with China, which Chinese officials see as a growing market that Russia should be eager to access. Beijing has recently stressed the need to reduce demand and identify alternate sources of energy, Feng said. Progress on this front could further increase tensions with Moscow if Beijing should come to believe that Russian energy is not worth the uncertainty and hassle, he claimed.

#### Post-Putin: Beijing's Hopes High for Medvedev

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19. (C) Feng noted that China finds Russian President Putin to be a strong partner in building unity while containing the economic irritants that divide Russia and China. Feng said Beijing is convinced Putin will still wield significant influence after stepping down as President. Given Beijing's affection for Putin, the announcement that First Deputy Prime Minister Dmitriy Medvedev is likely to succeed him was greeted with joy by our Chinese contacts in light of Medvedev's political and personal closeness to Putin. Indeed, Chinese policymakers expect to see even more progress in Sino-Russian ties under Medvedev. CIIS's Chen said that the specific leadership of either country has taken on less significance, because interests have converged in a fundamental way. Nonetheless, she said Beijing views Medvedev's ascendance as a good sign for continuing strong relations with Russia.

#### Downplaying Chinese Influence in Russian Far East

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110. (C) Chen Yurong believes that the Russian Far East will not prove to be a long-term problem for Sino-Russian relations, despite fears in Moscow of growing Chinese

influence in the sparsely populated, resource-rich region. The area continues to suffer from underdevelopment, and Chinese companies are playing an important role in providing badly needed capital. Most importantly, Chen insisted, Chinese investors and workers in the Russian Far East are not immigrants and consistently return to China when their work is finished, largely because China provides far more economic opportunities than Russia's Far East.

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